THE DOUBLE TARIFF SYSTEM

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Recent discussion of the tariff problem has brought to light one very interesting fact which has not received due attention, viz: the perfect agreement between the extreme protectionists and advocates of tariff revision on one point, that the Dingley tariff cannot be allowed to remain in its present form. It is true that the "revisionists" are in favor of reducing certain rates as a means of obtaining *reciprocal concessions* from foreign countries in favor of our export trade, while the "stand-patters" would rather adopt a maximum tariff, higher than the present rates, as a means of *retaliation* against those countries which treat imports coming from the United States less favorably than those of other nations. But both men like Governor Cummins, and those like ex-Secretary Shaw and former Representative McCleary, agree that an additional set of duties must be introduced in our tariff as a means of inducing or compelling other countries to grant us as favorable terms in their markets as they do to other countries.

The United States has hitherto been able to get along with a single tariff, for the reason that our tariff framers had mainly one object in view: the protection of our home market against foreign competition. But even in the past, whenever our commerce with some country reached sufficiently large proportions to make our export interests felt, it was found necessary to enter into special reciprocity agreements with such countries, by which favorable terms were secured to our export trade in return for concessions on our part. We thus introduced an additional set of duties, or provided for total exemption from duty for certain articles, which were granted exclusively to the countries with which we concluded such treaties.

Such were our reciprocity treaties with Canada in 1855; Hawaii, 1876; and with a number of Latin-American countries under the reciprocity provision contained in section 3 of the McKinley Act of 1890.

The experience of the United States is cited here merely to show that the single tariff system was not maintained in its strict integrity when exigencies of the times demanded certain modifications. However, as the main purpose of our tariff legislation in the past was the protection of our home market, and as our export trade was largely confined to raw materials and foodstuffs of which the world stood in need, the single tariff system sufficed for the time being.

The new trade situation created by our commercial expansion and the effort of American manufacturers to find an outlet for their products in foreign markets has, for the first time, placed a weapon in the hands of European countries, which they lacked until now.

As pointed out above, the Europeans were formerly unable to retaliate against our protective system for the reason that they needed our agricultural and other crude products, and could not subject them to high duties, without injuring their own interests. But when we attempt to invade their markets with manufactured products which threaten to displace their own goods, they naturally resort to the system of protection, of which we have taught them to make good use by our own example.

Long before the European countries had to confront the situation which they have dubbed the "American Danger," they had evolved a system (or, rather, systems) of double tariffs in attempting to regulate their mutual trade relations. As it has taken decades for the leading systems to reach their present stage of development, a study of European methods and experience should throw some light on the problems confronting us at present.

There are two distinct systems of double tariffs: The maximum and minimum tariff or, briefly called, the double tariff, and the general and conventional tariff based on reciprocity treaties. Each of these systems has its own advantages and defects. Each has its own sponsors and followers among the European nations.

It is not the purpose of this article to make a plea for either tariff system. There are no inherent virtues which necessarily go with any system which may be devised. Tariff systems are empirically worked out by nations in conformity with their special needs. A system which may have proved best for one country under a given set of political and economic conditions, may be shorn of its advantages in another country under conditions vastly

different. The object of this paper is merely the impartial presentation of facts which can be gathered by any one from a study of tariff history.

The Origin of the Double Tariff System in France.

France furnishes the classic example of the workings of the maximum and minimum or double tariff system, while to Germany we must go for a study of the conventional tariff system based on reciprocity treaties.

Before giving a description of the French system, it is well to mention the circumstances which led to its adoption in that country.

At the time the present French Republic was proclaimed, in 1871, France inherited from the imperial régime a system of commercial treaties with the principal countries of Europe based on a very low customs tariff. Under this tariff France admitted foreign products under low rates, and in numerous instances free of duty, and at the same time secured similar treatment for her own products in foreign countries through the reciprocity treaties mentioned.

The system worked more or less smoothly until an element of disturbance was injected by the Frankfort treaty of peace, which terminated the Franco-Prussian war in 1871. This treaty provided, among other matters, that any concessions as to commerce granted to England, Belgium, Netherlands, Switzerland, Austria or Russia by either France or Germany were to be immediately and unconditionally extended by either of them to each other. Until 1879 this provision worked no injustice to either of the contracting powers, since Germany had likewise in force a very low customs tariff. In 1879, however, Germany changed her policy and adopted a protective tariff. Within a few years the effect of this new tariff made itself felt, and the French realized that they had been "taken in" by the Germans.

The situation was as follows: The French having renewed their commercial treaties with foreign countries in 1881, by which their low tariff policy was to be maintained until 1892, were compelled to extend the same terms to Germany by virtue of Article XI of the Frankfort treaty, mentioned above. On the other hand, the Germans, having adopted a protective tariff for imports from all countries, were under no obligations to accord better treatment to

French products. The French felt a resentment against the new situation, which was both harmful to their interests and humiliating to their national pride. Although duties were advanced on some agricultural products during the eighties, the general tariff situation in relation to foreign countries remained unchanged. The depression of prices of agricultural products made the French farmers as anxious to secure protection for their products as the manufacturers for their goods. The result was a powerful alliance of industrial and agricultural interests, which, backed by the aroused sentiment of wounded national pride, swept the country like a wave, landing an overwhelming majority in parliament committed to protection and the repeal of the commercial treaties.

The parliamentary committee having the tariff in charge, with the well-known protectionist leader Méline at its head, saw very clearly that it would be exceedingly dangerous, if not impossible, to realize the demands of the extreme protectionists, who would pay no attention to foreign trade, adopt an autonomous high tariff and abrogate all the most favored nation treaties. They were alive to the fact that such a course would lead to the complete isolation of France and involve the loss of her export trade, which had assumed no mean proportions.

Accordingly, they agreed upon the adoption of a double tariff; general (commonly, though erroneously, called maximum) and minimum. The general tariff was to be applied to all countries in the absence of any specific agreement or treaty to the contrary. The minimum was to be granted to those nations which would agree to treat French products as favorably as any other, or would make other concessions deemed adequate by the French government.

As the tariff reform was undertaken by protectionists, the minimum tariff was fixed sufficiently high to afford adequate protection to the French producers. But, since a minimum tariff of this kind could not of itself induce foreign countries to make concessions to French products, it was found necessary to raise the maximum rates either to a prohibitive figure or, at any rate, to an extent which would compel foreign countries to seek to secure minimum rates if they would keep up their trade with France. In other words, making the minimum rates protective necessarily required making the maximum prohibitive or retaliatory.

The Experience of France with Foreign Countries.

It was predicted by the advocates of reciprocity treaties that the new tariff system would make it difficult for the government to secure favorable arrangements with foreign countries for French exports. As the chief object of a double tariff system is to obtain favorable terms for home products abroad, the success of the negotiations with foreign countries constitutes the crucial test of such a system. The experience of France in this respect should therefore receive close attention.

The following countries accepted the French minimum tariff in exchange for their own minimum rates: Germany, Great Britain, Austria-Hungary, Russia, Belgium, Holland, Sweden-Norway and Turkey. On the other hand, the maximum tariff had to be applied to imports from Spain, Portugal, Italy, Switzerland, Roumania, Greece and the United States, resulting in loss of trade with all of those countries. Let us consider first the countries with which amicable arrangements were concluded at once:

Germany.—Article XI of the Frankfort treaty leaves no room for tariff hostilities between Germany and France, each granting the other by an automatic arrangement the lowest rate given by either to any of the six European countries mentioned above.

With *Great Britain* France attempted to negotiate a commercial treaty in 1882. France demanded reductions of duty on wines, but Great Britain would neither consent to that nor agree to guarantee that they would not be advanced during the life of the treaty. As Great Britain, however, maintains a system of free trade as regards almost all other imports from France, the latter extended to Great Britain most favored nation treatment by legislative enactment. Under that act the minimum rates of the new French tariff of 1892 were automatically applied to England without getting any special concessions from the latter in return.

Austria-Hungary readily accepted the French minimum tariff in return for its own lowest duties. No other course could be taken by that country, first, because it had raised its own tariff and made it thoroughly protective and second, because while its exports to France in 1891, the year preceding the adoption of the new tariff, exceeded $26,000,000, it imported from France only about $3,000,000 worth, and therefore would be liable to lose more in the case of a tariff war than France.

Russia was in a position similar to that of Austria-Hungary. Its exports to France in 1891 amounted to $41,000,000, while French imports to Russia barely exceeded two and one-half millions. It therefore readily granted to France reductions in fifty-one articles of its tariff in return for the minimum tariff of France, but not until the latter agreed to make certain reductions in its *minimum* tariff in favor of Russian petroleum and vegetable oils.

As regards the minor countries, such as Belgium, Holland, Sweden and Norway and Turkey, the situation was quite similar; that is to say, in most cases they had more to lose than to gain from a tariff war and being, moreover, weaker politically as well as commercially, it was to their interest to secure the minimum French tariff in return for their minimum duties. Besides, some of them had had most favored nation agreements with France for some time past.

Now let us consider the countries which refused to accept the French minimum tariff as sufficient compensation for their lowest rates. The country which proved most intractable, going to the extreme of a tariff war, was Switzerland. In 1890 the exports from France to Switzerland amounted to nearly $47,000,000, while her imports from Switzerland amounted to about $20,000,000. France had, consequently, more at stake than Switzerland, and the smaller country knew how to make the best of the situation. As the new French minimum tariff affected Swiss articles of commerce very unfavorably the latter country refused to extend to France its own conventional tariff rates, unless France reduced several of her rates in the *minimum* tariff.

France declared that to satisfy the Swiss demand would mean to upset her entire tariff system, which was based on the principle of autonomous regulation of her own rates. The Swiss thereupon not only refused to apply their minimum rates to French products, but raised their general rates to a prohibitive scale, subjecting imports from France to duties as much as 190 per cent above those applied to other countries.

The tariff war lasted until 1895, causing enormous losses to France, her exports to Switzerland declining from $47,000,000 in 1890 to $25,000,000 in 1894, or about one-half. Peace was not concluded until France agreed to waive her principle of autonomous regulation of her tariff and *reduced her minimum rates* on some

twenty-nine articles. On the other hand, Switzerland granted to France her minimum tariff, but refused to make special concessions which she had offered to make before the tariff war had broken out.

The autonomous regulation of the tariff thus broke down before the decided opposition of a politically weaker nation which had the advantage of offering a profitable outlet for French products. With the other countries, viz, Spain, Portugal, Italy, Roumania and Greece, tariff hostilities led to the application of maximum rates on French products and *vice versa,* until an agreement could be arrived at, in each case resulting in loss of trade to France.

Thus French exports to Spain declined from $35,000,000 in 1891 to $21,000,000 in 1894, or 40 per cent; to Roumania, from nearly $2,000,000 to $1,500,000, or 25 per cent; to Portugal, from $4,800,000 to $2,400,000, or one-half; to Greece, from $4,500,000 to $1,250,000 in 1893, or 72 per cent.

In the case of Italy, France carried her point of making no reductions from her minimum tariff. But the tariff war with that country commenced as early as 1888, as a result of the revision of the Italian tariff. The treaty establishing commercial peace between the two nations was not ratified until the beginning of 1899, or eleven years from the date hostilities commenced, and more than seven years from the date the new French tariff went into effect, during which time the French exports to Italy declined from $37,000,000 in 1887, the year preceding the declaration of the tariff war, to $19,000,000 in 1894, the lowest record during the period; in 1898, the year preceding the application of the minimum rates between the two countries, the exports were about $27,600,000.

With the United States no agreement could be secured on the basis of the minimum tariff, and the agreement of May 28, 1898, secured partial concessions to France on argols, wines, brandies, paintings and statuary imported into the United States, for which France granted in return her minimum rates on canned and prepared meats, lard, certain kinds of fruit and lumber imported from the United States.

Summing up the results of the French agreements with foreign countries under the autonomous double tariff system, it will be seen that, with the exception of Italy, she was unable to obtain special concessions from any country with which she had any trade of

importance. The concessions secured from Russia were of no great practical value, and may be considered more in the nature of a salve on the political alliance between the two countries. The best France was able to accomplish was to obtain the minimum tariff of other countries in return for her own, after suffering a loss of more than $60,000,000 in annual exports to the countries with which satisfactory arrangements could not be made at once.[1] As most of the other countries had also raised their rates, the ultimate result was that each side retained its protective system.

The German Conventional Tariff.

Having learned something of the history of the French maximum and minimum tariff, and of the use it was put to by France in her tariff negotiations with foreign countries, let us review in a similar manner the experience of Germany with her so-called conventional tariff system. Germany started on her imperial career, like her western neighbor on her republican career, with a very low customs tariff. But the same causes which were responsible for the agitation in favor of a protective tariff in France, soon became operative in Germany as well. Both in France and in Germany the farmers and landlords found their industry threatened by the growing competition of American grain and other agricultural products. But while in France the agricultural interests remained alone for nearly two decades in their efforts to bring about a revision of the tariff, they found in Germany a willing and helpful ally in the industrial and financial interests.

The immense war indemnity of one billion dollars, paid by France to Germany at the close of the war, having filled to overflowing every financial channel in the empire, stimulated the growth of industries, the building of railroads, the development of mining, and the promotion of all kinds of enterprises at a forced pace, resulting in reckless speculation and an abnormal expansion of business activity beyond the actual needs of the people. But no sooner had the supply of French gold given out, than the familiar phenomena of industrial reaction set in. Suddenly deprived of the liberal credit on which so many of the industrial enterprises had been built up, they found themselves on the verge of ruin. As the

[1]The above figure does not include the loss in trade with the United States, which was due partly to the effects of the McKinley tariff.

new industries were not in a condition to withstand the competition of British and French products under the circumstances, the demand for protective duties became quite general. The combined pressure of the agricultural and industrial interests was sufficient to compel even Bismarck to abandon his free trade policy. A bill greatly increasing the old rates was introduced by the Chancellor in the Reichstag, and enacted by that body into law in 1879.

The new tariff must have afforded adequate protection, for the industrial expansion of Germany took a new start, and in an incredibly short time the empire found itself transformed from an agricultural into a modern industrial state, not only capable of supplying the domestic needs, but competing in foreign markets with the countries on which it hitherto depended for its own supplies.

This expansion of the foreign trade of Germany was stimulated by an unusual combination of favorable conditions, viz, the protective tariff at home and the absence of similar tariffs in the principal markets of Europe. This enabled the German manufacturer to sell his goods in the home market at very remunerative prices, and to dispose of his surplus abroad with great ease. The reason for the absence of similar tariff laws abroad has been partly explained in speaking of France. France had her hands tied by the commercial treaties which were to remain in force until 1892. The other European nations were likewise bound to retain their low rates of duty by their reciprocity treaties with France and with each other, and under their most favored nation treaties with Germany were obliged to extend the same liberal treatment to German products.

The feeling against Germany, however, became so pronounced toward the end of the eighties that it became evident to her statesmen that the German export trade would have to face a radical change for the worse in the near future. France announced her intention to terminate her treaties in 1891, and to inaugurate a new tariff policy. Other European nations prepared to follow suit. The German manufacturers became alarmed at the prospect of losing their foreign markets, and clamored for action by the government to avert the calamity. In looking for a way out of the difficulty and in sounding the feeling of influential spheres in foreign countries, it became apparent to the German Government that no relief

could be attained abroad without making corresponding concessions at home. This the German manufacturers were willing to do. Under the protection they had enjoyed for twelve years the German industries attained sufficient strength tò hold their own against all comers without further assistance from the state. What they needed was the aid of the government in preventing the erection of tariff walls abroad. Germany now opened negotiations with foreign countries looking to the conclusion of reciprocity treaties. On December 10, 1891, the commercial treaties with Austria-Hungary, Belgium and Italy were laid before the Reichstag by Chancellor Caprivi. Treaties with other nations soon followed.

In negotiating these treaties the German Government used the tariff of 1879 as a basis for bargaining, and reduced the rates on a large number of articles, the reductions ranging from ten to seventy-five per cent, the bulk being near twenty-five per cent. In addition to these reductions of duty Germany agreed to "bind" several of the rates which she refused to reduce, that is to say, she agreed not to advance them during the life of the treaties negotiated. The treaties were concluded for a term of twelve years. In return for these concessions Germany obtained reciprocal advantages for her trade in the markets of those countries, which not only prevented the danger of upward revisions of those tariffs for twelve years to come, but insured much lower rates of duty on German products, that is to say, even more favorable conditions than her exporters had enjoyed hitherto.

How advantageous the policy of long term commercial treaties proved may be seen from the fact that upon the expiration of those treaties, at the end of the year 1903, negotiations were opened for the conclusion of new treaties, which went into effect in March, 1906, to remain in force until the close of 1917, *i. e.*, for another twelve years.

The first set of treaties included only seven nations—Austria-Hungary, Russia, Italy, Switzerland, Belgium, Roumania and Servia. The new treaties include all of the above countries, and in addition Sweden, Bulgaria and Greece. Negotiations are, furthermore, in progress or in contemplation with the United States, Spain, Denmark, Canada and some of the South American republics. The enlargement of the sphere covered by the German treaties is in itself a sufficient indication of the advantage derived by Germany

from that policy, but the same is also true of the countries with which she had concluded commercial treaties. In the case of several of those countries the reciprocity treaty with Germany was their first experience in that field;—all of them to-day have supplemented their new commercial treaty with Germany by a series of similar treaties with each other, so that to-day Europe is covered by a network of those treaties which, in their aggregate, affect the customs rate of nearly every article entering international trade.

The Relative Merits of the Two Double Tariff Systems.

Let us see what conclusions we can draw from the experience of France and Germany with their respective double tariff systems.

Either system is an advance on the old single tariff system, being designed to protect the country on two fronts, so to speak, by taking care not only of the markets at home, but also of the home interests in foreign markets. Under either system the general tariff—commonly, though erroneously, called maximum in this country—is enacted by the parliament and applied to countries which fail to treat the products of that nation as favorably as they do those of other nations. The difference arises in connection with the application of the lower rates called minimum in the French system and conventional in the German.

The chief advantage of a maximum and minimum tariff system claimed for it by its advocates is that it secures national *autonomy* in the working out of the tariff schedules. By determining in advance what shall be the minimum rate of duty on any article of commerce, the legislative body is able to accord to each industry what it considers to be the indispensable degree of protection. The foreigner is at the outset deprived of any voice in the matter, and has no opportunity of influencing national legislation from the point of view of his interests. On the other hand, by providing a set of maximum duties much higher than the minimum, a club is held over the foreigner, to keep him from retaliating in kind.

As has been shown in the case of France, the policy succeeds well as regards countries which are less favorably situated than the country adopting the policy. When, however, the other country, as was the case with Switzerland, has the commercial advantage, it can compel even a stronger opponent, as France undoubtedly was,

to yield in the end. The concession made by France on that occasion was important, not only as measured in dollars and cents, but also in that it signified the surrender of the principle of autonomous regulation of the tariff, the French having reduced their rates *below the minimum* originally set by the French parliament.

Nor has France been alone among countries which have tried unsuccessfully to maintain the principle of autonomy through a double tariff system. Russia was compelled to reduce her minimum rates in her negotiations with France as well as with Germany, after going through a tariff war with the latter on that account. Spain and Greece also had to reduce their minimum rates to obtain concessions from other countries.

Lack of *elasticity* is the fault found with the double tariff system by those who prefer it to a system of general and conventional rates —that is, one in which the minimum rates are determined by reciprocity treaties or "conventions," as they are called in Europe. In the case of the double tariff of the French pattern, a country offers foreign nations the choice of either set. They are asked to "take or leave it," and if dissatisfied with the terms, their products are subjected to the general or even special war rates. Such, as we have seen, was the experience of France with Switzerland, Italy, Spain, Portugal, Roumania and Greece, with resultant loss to her foreign trade.

On the other hand, a system based on reciprocity is not only elastic in the sense indicated above, but may prove more advantageous in the end, in that it does not compel the negotiators to show their hand from the start. This is shown by the experience of Germany, whose negotiators in concluding reciprocity treaties, were able to bargain with a free hand, subject to the approval of the legislative body, after the negotiations had been concluded.

True, Germany did not escape a tariff war (with Russia) when negotiations failed, but that was rather because Russia insisted on her prearranged minimum, and when the war was over, it was Russia and not Germany which had to give up the principle it contended for.

So much for the rates of the country which adopts the double tariff. When it comes to the other side of the bargain, namely, the rates to be obtained from the other country, the difference between the two methods is even more striking.

In a system of reciprocity treaties, each side comes prepared to ask for reductions in rates of duty on those products in which it is particularly interested. As a rule, it is found that each country is interested in a comparatively small number of articles which it can successfully sell to the other. Let us illustrate this by example: Let A be a country with a flourishing export trade in manufactures of iron, steel, coal and cotton textiles; B, in wines, liquors, fruits, finer textiles, such as silk, velvet, lace and embroidery; C, in cereals, cattle and other agricultural products. Under a system of reciprocity treaties of the German type, each will adopt a general tariff with duties fixed on a protective basis, or even higher, then, in negotiations for mutual concessions, A will try to obtain from B and C lower rates on its iron and steel products, coal and cotton textiles, and in turn will grant reductions to B in import rates on wines, liquors, fruits and fine textiles; and to C, on cereals and other agricultural products. Each country will bargain and try to make the least concession and to obtain the most favorable terms for its own products until they will reach a common ground and compromise on certain rates. As each will have a say not only as to the concessions it is *to make,* but also as to those it is desirous *to obtain* from the other, the chances of a successful conclusion of the negotiations by a series of "give and take" steps are quite favorable.

Under the French system, countries A, B and C would set up a double set of duties, all definitely fixed and proclaimed by their parliaments before their respective negotiators got together. As the minimum tariff must contain the sum total of the concessions which a given country is willing to make to the rest of the family of nations, the negotiators of A, B and C would each come armed with a prearranged set of concessions, most of which may not be of interest to the other two, while the articles that B and C are mostly interested in may either not be covered at all in A's minimum tariff or at any rate, not to their satisfaction. Since the representatives of the respective countries are powerless to make any concessions beyond those fixed in their minimum tariffs, they are reduced to the choice of accepting or rejecting each other's predetermined minimum in exchange for their own, as an alternative to a tariff war. The only limit to the maximum rates of each country is its own sense of danger to the interests of its citizens, in so far as they are dependent on the foreign product. Such was the

case, for example, with Italy when it abolished its war duties on French products and accepted France's somewhat harsh terms.

The universal application of a rigid double tariff system would neutralize its efficiency and practically bring all nations back to the position they were in when each applied a single protective tariff to all foreign imports.

Even in the case of apparent success of a maximum and minimum tariff, the success may often prove to be only half as great as in that of a conventional or reciprocity tariff. This may be best explained by citing recent tariff history.

When Germany adopted the reciprocity policy in 1891, it negotiated reciprocity treaties with seven countries, from each of which it obtained concessions on those products which constituted important items in the German export trade. Thus, Italy reduced her rates of duty on 254 articles in favor of Germany; Switzerland on 293 out of a total of 476 articles in the Swiss tariff, etc. Germany had thus a direct influence in shaping the tariffs of those countries, and in return allowed them to exert a similar influence on her tariff.

On the other hand, when France succeeded in inducing some of those countries to grant her their minimum rates in return for her minimum tariff, it had to be satisfied mostly with the rates that had been determined upon in the course of the negotiations of those countries with Germany and other countries. In so far as France could export the same products as the latter it had the same advantage. But as regards purely French products, in which Germany naturally was not interested and therefore had no reason to secure lower rates from those countries, France had to be satisfied with such rates as the foreign tariffs provided.

To take an example nearer home: In expressing a solicitude as to the fate of the United States exports to Germany under the new tariff system, neither "stand-patters" nor "revisionists" have gone beyond voicing the demand that the United States products be admitted under the conventional rates of duty accorded to the nations with which Germany has concluded tariff treaties. Yet, in the list of articles covered by the Germany reciprocity treaties with those countries, several articles of great importance to our trade are conspicuous by their absence, for the simple reason that the other countries were not interested in them. Reductions of

rates for such articles are generally obtained, if at all, through special negotiations involving reciprocal concessions.[2]

Stability.—Another very important consideration with the advocates of the French system is that it leaves the government free to change the rates at any time when circumstances and changed industrial conditions make such a step necessary. All that the government binds itself to do with regard to a foreign country is to accord to it its minimum tariff. It reserves the right, however, of changing the minimum tariff whenever and in whatever way it sees fit.

Under the system of conventional or reciprocity tariff, the contracting powers specify the exact rates to be respectively applied to each other's products, and such rates cannot be raised during the life of the treaty. Admitting this contention, the advocates of the conventional tariff system claim that it offers great advantages, which more than counterbalance the disadvantage in question, in that it insures stability and certainty for the commercial interests. Under the German tariff treaties of 1891, practically no changes in the tariff occurred in fourteen years, and the manufacturing and exporting interests were able to calculate conditions and direct their investments with perfect safety. The new tariff which went into effect March 1, 1906, likewise binds the conventional rates of the German tariff until the close of the year 1917. At the same time it binds the rates of the countries with which treaties have been concluded in a similar manner. As a result of this, the German manufacturer not only knows what degree of protection his goods will enjoy in the home market for the next twelve years, but he and the exporter know also that for twelve years to come they can do business in those foreign countries under conditions which cannot be changed for the worse, so far as the tariff is concerned, and can therefore estimate their prices and take long time contracts without fear of having their calculations upset by unexpected changes in the tariffs of those countries as well as of his own country.

One of the dangers of the double tariff is that it is a double-edged weapon, and in case of failure of negotiations, the maximum tariff may prove excessively burdensome to the people of the coun-

[2]For a more detailed account of the commercial and tariff relations between Germany and the United States, see articles by the present writer in the *North American Review* for March and September, 1905, and March, 1906.

try which makes use of it as a weapon against others. The danger is especially great when the supply of the article affected by the maximum rate happens to be largely or exclusively concentrated in the country against which that rate is directed. In this respect the United States is in a fortunate position as compared with other nations. There are few, if any, articles of importance in our import trade for which we largely depend upon a single nation and which we could not get elsewhere if, through a tariff war, we had shut out the country on which we had mainly drawn for our supplies. On the other hand, we export many a valuable product of which we hold either a complete monopoly or nearly so. Cotton is an illustration of the former, petroleum and copper of the latter. While we have no monopoly of production either of copper or petroleum, the total world supply of these products is so limited as compared with the demand, that if any nation were to shut us out of its markets, we would have no difficulty in disposing of our surplus in other markets which, for the time being, would no longer be supplied by our competitors, whose supply would go to meet the demand of the country with which we were at war.

Conclusion.

The respective merits of the two double tariff systems must in the ultimate analysis be determined by the test which is applicable to any economic policy, namely, the success attending their practical application. Judged by that standard, the German system seems to be gaining ascendancy over the French.

The French system found four imitators: Spain (which really was the first to inaugurate it), Russia, Greece and, in a modified form, Norway. All of these countries, except Norway, have been obliged to compromise on the fundamental principle in their system, viz, the autonomous regulation of the minimum rates, and to go below their minimum tariffs in order to obtain desired concessions from other countries.

Russia, which had started out with a maximum and minimum tariff in 1893, was obliged to reduce her minimum rates after going through a disastrous tariff war with Germany in her attempt to maintain the integrity of her minimum tariff. As a result of her experience, she abandoned the maximum and minimum tariff entirely upon the expiration of the treaties based upon that tariff, and

in 1903 adopted a new general tariff which served as a basis in the negotiation of new commercial treaties for a conventional tariff of the German type.

Norway applies her minimum tariff to all countries which do not discriminate against her products. This secures for her the minimum rates of foreign countries, and keeps her out of tariff wars, but deprives her of an opportunity of securing special reductions for her own products such as Germany and the countries following her policy are able to obtain.

Canada has just adopted a maximum and minimum tariff but so far applies her maximum tariff to all foreign countries, and whether she will fare better than France and Russia in her future negotiations with foreign countries and be able to retain her minimum tariff in its integrity remains to be seen.

On the other hand the system of conventional tariffs based on treaties of reciprocity is now in vogue in the following countries: Germany, Austria-Hungary, Russia, Italy, Switzerland, Belgium, Roumania, Servia, Bulgaria. Sweden has also concluded a commercial treaty with Germany, but has not followed it up with other treaties because she contemplates a revision of her tariff in 1911. Denmark and Holland are contemplating the adoption of the conventional tariff.

The experience of the foreign countries thus seems to point to the general and conventional tariff system as the more adequate of the two.

What conclusion are we warranted in drawing from foreign experience with reference to the United States? The answer to that must be predicated upon the special political and economic conditions prevailing in this country.

In no country in the world does the ratification of a treaty meet with so many difficulties as in the United States. It is doubtful whether the history of any other nation abounds with so many instances of treaties failing of ratification by parliament after they have received the sanction of the Executive. The treaty-making power is vested in that branch of our legislative body which is the slowest to change in the composition of its membership, and therefore less influenced by public opinion and by the changing attitude of the times. Added to this is the constitutional provision that requires a majority of at least two-thirds of the vote of the Senate

for the ratification of a treaty. While these conditions apply to all treaties, a reciprocity treaty affecting the rates of customs duty would in addition require the consent of the House of Representatives.

Compare with this the situation in Germany. The treaty having been negotiated by the government is introduced in the Reichstag and a simple majority—be it of one vote only—is sufficient to ratify the treaty. There is only one house in which it is considered, a house whose members are as responsible and responsive to the wishes of their constituents as the members of our House of Representatives are to theirs.

Under our democratic form of government and with Congress very jealous of its powers of controlling the revenue of the country, no administration which cares for the success of its policy is likely to venture upon the conclusion of reciprocity treaties involving a substantial reduction of duties unless it has good reasons to expect its ratification by Congress. If it should the probabilities of more or less numerous changes being made in the treaty while under consideration by Congress would be very great; as in most instances this would be equivalent to a rejection of the treaty in the form negotiated by the administration, the difficulties in the way of a successful negotiation of reciprocity treaties of the German type seem very great.

But the adoption of the French system would prove no better suited to our political conditions than the German. If treaties were to be negotiated on the basis of a minimum tariff previously adopted by Congress they would still require a two-thirds majority vote of the Senate and be exposed to the dangers described above. If Congress were merely to authorize the President to extend our minimum tariff to all countries which grant us their minimum rates, such action would undoubtedly secure to us the existing minimum rates of every nation in the world but would involve on our part the voluntary surrender of the power to secure from various nations concessions for that part of the $700,000,000 worth of our annual exports of manufactured products for which there happen to be no conventional or minimum rates in the tariffs of other countries. Yet that is one of the most important ends to be had in view in shaping our new tariff policy.

There is a way to overcome both of these difficulties; a way

which bids fair to combine the advantages of the French and the German system; one that is based on a principle already sanctioned by Congress, and the constitutionality of which has been sustained by the Supreme Court of the United States. The principle in question underlies section 3 of the Dingley Act, which provides:

> That for the purpose of equalizing the trade of the United States with foreign countries . . . the President be, . . . authorized . . . to enter into negotiations with the government of those countries . . . with a view to the arrangement of commercial agreements in which reciprocal and equivalent concessions may be secured in favor of the products and manufactures of the United States, . . . and whenever the government of any country or colony shall enter into a commercial agreement with the United States, or make concessions in favor of the products or manufactures thereof, which, in the judgment of the President, shall be reciprocal and equivalent, he shall be, and he is hereby authorized and empowered to suspend, during the time of such agreement or concession, by proclamation to that effect, the imposition and collection of the duties mentioned in this act, on such article or articles so exported to the United States from such country or colony, and thereupon and thereafter the duties levied, collected, and paid upon such article or articles shall be as follows, namely:

On the basis of that section we enjoy to-day the benefit of reduced rates of duty in France (only partially), Germany, Italy, Portugal, Spain, Switzerland and Bulgaria. The list of articles on which the President is authorized to make reductions of duty is however very limited including only argols, brandies, wines, paintings and statuary.

If section 3 were enlarged by an act of Congress so as to include a considerable variety of articles sufficient to make it of interest to countries of different climes and products, or if a horizontal reduction on the entire tariff list were authorized under section 3 similar, in principle, to that provided by section 4, which has since expired by limitation, it would enable the Executive to negotiate agreements of far-reaching value to the United States, without requiring their ratification by Congress.

An extension of the scope of section 3 would thus enable us to reap all the advantages inherent in the system of reciprocity treaties. The President being authorized to vary the concessions to different countries within the limits set, in accordance with the reciprocal concessions secured, our tariff system would be given the necessary flexibility which has stood Germany in good stead.

At the same time Congress having set a limit to the reductions of rates to be granted by the Executive, it would fully preserve its constitutional prerogative of controlling the revenue of the country, and thereby secure whatever advantages inure to the maximum and minimum tariff system. The enactment of such a provision of Congress would, however, be easier to effect than the ratification of a series of treaties, since it would require but a simple majority in each house of Congress, and, once enacted, would authorize the conclusion of all subsequent agreements negotiated by the President.

The writer has endeavored to present an impartial review of the salient features of the various tariff systems now in operation among the most advanced nations of the world. This article has been written not with a view to advocate a certain policy, but in order to bring out the salient facts, a knowledge of which is indispensable for an intelligent discussion of a problem, the correct and early solution of which is of immense import to the welfare of this country.